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European Review

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views.

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Briefs

West Germany — Polls on *Ostpolitik* 25X1

Bonn's spy scandal has had little impact on public views of the state of intra-German ties. Positive and negative assessments were evenly balanced in a survey published by the Infas polling firm last month—virtually the same result as in an identical poll last April. By contrast, the postponement of East German leader Honecker's visit to Bonn last year caused much greater pessimism about intra-German relations, according to earlier Infas studies, while the first government-guaranteed credit to East Berlin in 1983 had the opposite result. 25X1

The recent poll data almost certainly reflect the success of both governments in minimizing the scandal's political effect. Starting with the first defections, Bonn cabinet ministers made clear that policy toward East Germany would remain unchanged, and East Berlin so far has made no propaganda use of the defectors. Bavarian Minister President Strauss visited with Honecker shortly after the defection of counterintelligence official Tiedge last August and publicly dismissed the affair as insignificant. Moreover, following a string of spy cases in the 1970s, the West German public apparently regards them as both inevitable and irrelevant to intra-German political and economic ties. 25X1

Greece — New Austerity Measures 25X1

The austerity measures announced by Prime Minister Papandreou late last week probably do not go far enough to reverse Greece's deteriorating balance-of-payments situation or deal with problems in the domestic economy. The new measures include a 15-percent devaluation of the drachma, a tighter incomes policy, and new restrictions on imports. The US Embassy reports that the government will strengthen price controls and reduce the large deficit through reductions in public spending. The new measures are aimed at reducing the large current account deficit, paving the way for a possible balance-of-payments loan from the EC and avoiding the need to request a rescheduling of foreign debt.

In introducing the new measures, Papandreou hinted that without the new policies Greece would soon be forced to accept conditions imposed by the IMF. Both the conservative opposition New Democracy Party and the Communists have 25X1 criticized the new policies as harmful to workers. The Communists have threatened to use their disproportionate strength in the labor unions to fight the new policies, and several strikes already have occurred to protest the tough wage policy. The timing of Papandreou's decision probably reflects a desire to take advantage of his political strength in the aftermath of his victory in the June election. He has acknowledged that the worsening economy requires prompt action. 25X1

Cyprus

Kyprianou Under Attack [redacted] 25X1

A concerted campaign by Conservatives and Communists to unseat President Kyprianou may hobble the government in Nicosia and complicate UN mediation on the island. The Conservative and Communist Parties have introduced a joint motion to dissolve parliament on 31 October and hold new legislative elections on 8 December. Conservative leader Clerides told US Embassy officials that, if the two parties together won a two-thirds majority, they would try to amend the constitution to permit early presidential elections. Publicly, Kyprianou has 25X1 expressed his willingness to hold early legislative elections. [redacted] he fears the Communists and Conservatives would 25X1 emerge from elections in a stronger position and be better prepared to mount a presidential campaign. [redacted] 25X1

Domestic problems have plagued Kyprianou since the UN negotiations collapsed last January. The Conservatives and Communists blamed Kyprianou's hardline approach for the impasse and joined ranks to agitate for his resignation. Kyprianou temporarily managed to divide his opposition by meeting with Clerides over the summer on a common approach to the Cyprus problem, but these talks broke down last month. If, as is likely, the Communists and Conservatives succeed in winning a two-thirds majority in the legislature, they could make it increasingly difficult for the President to govern by blocking key pieces of legislation, including the budget. Nevertheless, the opposition will still find it difficult constitutionally to force his resignation before his term ends in 1988. To extricate himself from his domestic troubles, Kyprianou may feign a more conciliatory attitude toward peace efforts on Cyprus. At the same time, he could open the negotiations to public debate, in where he is likely to find support for his hardline positions on such issues as Turkish troop withdrawals and the return of refugees. Any public airing of the UN proposals probably would damage efforts to solve the Cyprus problem. [redacted] 25X1

Articles

CEMA: A Soviet Perspective on the Troubled Soft Goods Industry [redacted] 25X1

Faced with chronic shortages of common consumer items and production bottlenecks, Moscow is calling on its CEMA allies to increase exports of finished consumer goods.[1] According to a [redacted] Soviet [redacted] however, Eastern Europe may be hard pressed to meet Soviet expectations for soft goods—textiles, clothing, shoes, and other wearing apparel—as production prospects to the year 2000 appear bleak. [redacted]

A Neglected Industry

Although CEMA countries lead in the production of cotton textiles and leather footwear, according to a [redacted] study prepared by a Soviet interagency working group on the Long-Term Consumer Goods and Services program, they lag far behind the West in output of most other soft goods. During the 1970-83 period, CEMA soft goods industries posted the lowest growth rate of all industrial sectors, reflecting a low priority in resource allocation and a weak commitment—despite official rhetoric—to improving light industrial output. Production grew slowly in the late 1970s before stagnating—and, in a few cases, declining—in 1981-83. [redacted]

The study attributes CEMA's sluggish performance during the late 1970s and early 1980s to several major factors:

- *Inadequate raw materials.* Declining harvests and production problems forced the USSR, CEMA's major supplier of raw materials, to limit deliveries of cotton, leather, and chemical fibers. Moscow turned to international cotton markets to prop up

[1] CEMA—the Council for Mutual Economic Assistance—is made up of the USSR, Poland, East Germany, Czechoslovakia, Hungary, Bulgaria, Romania, Mongolia, Cuba, and Vietnam. [redacted]

The USSR's Long-Term Consumer Goods Program

As a supplement to the Food Program, work began on the Long-Term Nonfood Consumer Goods and Services Program Toward the Year 2000 under General Secretary Andropov. Discussion of the program continued under the Chernenko leadership. Completion and publication was long delayed, however, by debate about where to find the resources to support the program. Statements in the Soviet press published during Chernenko's tenure showed that the areas to be addressed would include footwear, personal care, and repair and telephone services. [redacted] 25X1 25X1 25X1 25X1 25X1

General Secretary Gorbachev, faced with the task of providing incentives for improved worker performance in order to revitalize the economy, recognizes the need to increase availability and quality of consumer goods and services. His anti-alcohol campaign has heightened the urgency for such increases: if sales of alcohol are reduced, the public will have extra cash on hand, contributing to the problem of excess purchasing power. [redacted] 25X1 25X1

The consumer goods program was finally approved by the Politburo in September. Details were released last week. Ambitious goals are set for output of items such as consumer durables and soft goods, and for services including communications, public transport, housing repair, and personal care. Soviet commentary on the program suggests that gains are to come largely from more efficient use of existing resources. [redacted] 25X1

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Table 1
CEMA: Average Annual Growth of Selected Soft Goods Production [a]

Percent

	1971-75	1976-80	1981-83
Textiles	2.5	1.2	0.1
Cotton	2.0	1.2	0
Wool	2.7	0.8	−1.7
Silk	4.9	2.7	2.4
Knitted outerwear	5.5	2.4	−0.1
Knitted undergarments	3.9	3.2	0.1
Hosiery	3.0	2.8	2.3
Leather footwear	1.7	1.4	0.5

[a] Does not include Vietnam.

Eastern Europe's production of cotton textiles but was thwarted and angered by Eastern Europe's reexport of the raw material to the West.

- *Insufficient investment.* Changes in investment policy left soft goods producers in the region with a lower share of total investment, and diminished funding has been directed to retooling instead of new construction to expand output. A decision to keep soft goods machinery in production past their standard lifespan in order to meet output goals led to an increase in breakdowns. This was aggravated by concomitant declines—with the exception of Czechoslovakia—in the region's light industrial machine-building production.

- *Declining CEMA trade.* A shift in East European exports of consumer goods to hard currency markets exacerbated shortages of soft goods, particularly in the USSR.

- *Failure of CEMA cooperation.* The CEMA members have yet to conclude or to implement a number of economic cooperation agreements to expand the output and variety of natural and synthetic raw materials and specialized equipment.

Table 2
CEMA: Per Capita Production of Selected Soft Goods as a Percent of Soviet Consumption Norms [a]

	1970	1983	1990	2000	
				Low [b]	High [c]
Textiles	72.6	78.7	96.7	85.2	110.0
Cotton	88.1	93.1	103.2	NA	109.0
Wool	81.5	83.2	99.6	91.9	102.4
Silk	49.3	68.9	96.7	85.4	141.2
Knitwear	43.4	56.0	66.6	NA	81.2
Knitted outerwear	NA	NA	NA	68.0	NA
Knitted undergarments	NA	NA	NA	61.5	NA
Hosiery	67.3	86.2	99.2	NA	109.6
Leather footwear	84.6	90.3	90.7	NA	91.0

[a] The working group applied the Soviet consumption standard to other CEMA countries.
[b] Projections based on current—although unspecified—growth rates of production. East European projections include exports and accordingly overstate these CEMA-wide totals.
[c] Projections based on draft target growth rates for the Soviet Long-Term Consumer Goods and Services Program.

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The Road Ahead: Continued Stagnation

On the basis of data provided by the CEMA Permanent Commission for Light Industry and Soviet organizations, the working group produced two pessimistic estimates of per capita output of soft goods in CEMA countries for 1990 and 2000. Projections show total production increases for CEMA soft goods by the year 2000, but at best only modest per capita growth. Under both scenarios, forecasts of per capita production of key soft goods fall below established Soviet consumption norms.[2] Leather footwear and knitwear represent areas of particularly sluggish growth. The lower set of projections probably are more realistic. 25X1

[2] The Soviets have established "rational norms" for consumption. These norms set standards for how much an average Soviet citizen should consume in food, housing, clothing, and other goods and services. They generally represent a comfortable living standard, albeit a lower one than in the West. 25X1

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Prescription for Improvement

Recommendations to avert this dismal production outlook focus on the well-worn theme of increasing CEMA coordination. High priority is to tap new sources of raw materials. East European countries expect their needs for textile fibers to exceed availability of supplies from their domestic production and Soviet exports by 50 percent in 1990. Possible sources of additional imports include the poorer CEMA countries—Vietnam, Mongolia, and Cuba. The study also recommends that CEMA:

- Seek out raw materials on LDC markets.
- Step up existing scientific programs to develop new chemical fabrics and to make use of raw material byproducts.
- Finance joint investments to construct spinning mills in the Soviet Union [redacted]

It also recommends modernization of the capital base. Not only has past industrial strategy failed, but it has resulted in increased dependence on Western machinery and equipment. To avoid further reliance on the West, CEMA should:

- Complete and rapidly implement stalled agreements on producing specialized machinery to relieve shortages of textile and footwear equipment and upgrade technology. If these agreements are not pushed through by 1986, light industrial machine-building enterprises will not begin work on these sought-after specialized machines until the next decade.

- Coordinate purchases of new technology from the West to avoid duplication.

- Establish a separate group to coordinate CEMA-wide planning in other industries involved in soft goods production, including agriculture, light industrial machine building, and the chemical industry. [redacted]

Although Moscow won grudging commitments from its East European partners at the June 1984 CEMA summit to provide more and better consumer goods, we have seen no mention of specific levels. The working group—giving the first hint of Soviet demands—called for East European soft goods exports to the USSR to increase by the year 2000 by one-third over 1981-85 levels. In Moscow's view, the East Europeans have adequate reserves to meet these Soviet requirements. To pave the way for this heightened trade with Eastern Europe, the report recommends:

- The standing CEMA Commission on Foreign Trade develop incentives to stimulate intra-CEMA exports and to redirect trade with the West to the USSR.
- CEMA Foreign Trade Ministers draft measures to improve the assortment of goods in direct trade between CEMA soft goods producers and retail traders.
- Imposition of stricter sanctions for the delivery of poor quality goods and a reduction in prices for less desirable products. 25X1
- Simplified coordination of CEMA consumer goods agreements and contracts. [redacted] 25X1

It is too early to make conclusive judgments, but we believe Moscow will adopt these modest proposals for greater CEMA integration. These could be marginally helpful, but are no substitutes for change in Soviet priorities and increased investment. General Secretary Gorbachev may instead focus on other consumer problem areas—such as food—where the prospects are not as gloomy as they are for soft goods. [redacted] 25X1

Soviet Reaction

According to a US Embassy source, the assessment sparked sharp debate in the formulation of Moscow's Long-Term Consumer Goods and Services program. There was little apparent disagreement with the report's analysis or projections, but participants clashed over how to solve the industry's problems. Increased investment apparently was the major bone of contention, with key members of the State Planning Committee (Gosplan) unwilling to shift scarce funds from other sectors. Indeed, General Secretary Gorbachev will be hard pressed to find the resources needed to pursue his stated goals of modernizing the heavy industrial base and maintaining his commitment to defense and at the same time providing investment to boost consumption levels. The General Secretary's program implies that 25X1 growth in consumer-oriented investment during 1986-90 could fall by some 60 percent compared with 1981-85. [redacted] 25X1

Implications for Eastern Europe

We believe this report signals new Soviet toughness toward Eastern Europe, which can expect additional pressure to expand its support for the USSR's soft goods industry and redirect its trade with the West. Harsh criticism of the East Europeans and a desire to minimize resistance to programs for increased CEMA integration and trade, however, make it likely that the report—even in a diluted version—will remain in Soviet internal circles. [redacted] 25X1

With poor prospects for its own soft goods production, Eastern Europe is likely to resist Moscow's demands. Stagnating living standards and subsequent strains on political stability in the region have placed narrow limits on cuts in consumer goods supplies to the East European populace. Nor can the area—in light of its debt problems—face the loss of hard currency earnings from sales to the West. [redacted] 25X1

[redacted] 25X1

Eastern Europe: Boom Market for Syndicated Lending [redacted]

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Eastern Europe has enjoyed a resurgence in borrowing from Western banks this year. The region raised $2.8 billion in syndicated loans on increasingly favorable terms in the first 10 months of 1985—a sharp turnaround from the early 1980s when bankers slashed lending to the East. Japanese and Arab banks have played a leading role in new lending while the importance of US and West European banks has fallen compared with the 1970s. Lenders have become more inclined toward Eastern Europe because of improved hard currency trade performance in 1983-84 and a lack of comparably attractive investments elsewhere. Borrowers have taken advantage of favorable loan terms to restructure debt, build reserves, and cover shortfalls in hard currency earnings this year. [redacted]

[redacted]

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[redacted]

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Japanese and, to a lesser extent, Arab banks have played a prominent role in the upswing in new lending. Japanese banks, which have been looking to diversify their loan portfolios, have lead-managed or co-lead-managed 41 percent of the loans to Eastern Europe this year, compared to 18 percent in 1979. According to European bankers, increased competition from Japanese banks in the lending market has pushed down interest rates on loans to Eastern Europe. US banks have managed 15 percent of this year's loans to the East, down from 20 percent in 1979. This parallels the decline in overall US exposure to Eastern Europe. Many US banks that have managed recent loans to the region have been mainly interested in earning the management fees and have tried to sell off their portions of the loans quickly to limit exposure. [redacted]

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Western Bank Motives

The lack of comparably attractive lending elsewhere largely explains the willingness, and in some cases, even eagerness of Western banks to resume lending to Eastern Europe. The success of the East Europeans in running hard currency trade surpluses in 1983-84 has encouraged bankers to look more favorably on the region. The financial positions of East Germany, Hungary, Bulgaria, and Czechoslovakia seem relatively more secure than those of many LDCs, especially in Latin America, where bankers feel overexposed. The East European borrowers have

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[redacted]

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demonstrated their ability to meet obligations by substantially cutting their debt since 1980, and, except for Romania, they have avoided rescheduling. Having made deep cuts in their East European exposure in 1981-83, banks now feel that they have elbow room to respond to loan requests from the more creditworthy countries. Some bankers—particularly in Western Europe and Japan—believe East European imports from the West will rise with the launching of new five-year economic plans for 1986-90, and they want to reestablish ties to the better credit risks.

Western banks have been particularly receptive to loan requests from East Germany and Hungary for additional reasons. The GDR, besides running sizable trade surpluses, boasts the strongest record of economic growth in Eastern Europe since 1982. Banks also trust in the West German umbrella for East Berlin, which Bonn demonstrated by guaranteeing two large West German bank loans during East Germany's liquidity squeeze. Finally, banks have found East Berlin a lucrative investment because of the regime's acceptance of relatively high interest rates. The GDR's recent loans have carried spreads of .875 and .75 percentage points over LIBOR, compared to .25 to .5 percentage points for other Bloc countries. The East Germans apparently prefer to

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have their loans oversubscribed at higher interest rates rather than obtaining the most favorable terms.

In Hungary's case, bankers are counting strongly on Budapest's reform program to improve the efficiency and competitiveness of the economy. Hungary's good relationship with the IMF—which lent nearly $1 billion in 1982-84—has added to banker confidence. Moreover, banks have been eager to participate in World Bank cofinancing loans because they believe that the Bank's involvement guarantees that the loans are exempt from rescheduling should Budapest run into repayment problems. Japanese banks have been particularly attracted by the apparent security of these deals.

In Romania's case, however, banks have mounted the recent loan effort not because of enhanced confidence in Bucharest but because of their desire to avoid another round of reschedulings. Romania's leading creditor banks concluded that Bucharest needed a major loan to cover large repayments due in October on its rescheduling agreements. Disappointing export performance earlier this year seriously reduced Romania's foreign exchange reserves.

Reasons for Borrowings

The East Europeans initially used the borrowings to repair some of the damage to their financial positions by the credit crunch. They took advantage of the longer maturities and lower interest rates being offered by Western banks to replace more expensive short-term debt accumulated in 1982-83. Borrowers also used the funds to boost reserves and build financial cushions against a repetition of the recent cutback in lending to the region. East Germany and Czechoslovakia returned to the loan market to some extent less because they needed the money than because they wanted to reestablish their improved credit ratings. For example, East Germany continued to raise new credits even though it had not drawn down all its previous borrowings and sought oversubscribed loans as proof of its financial strength. In contrast, the more recent borrowing initiatives by Hungary, Bulgaria, and Romania have resulted from shortfalls in hard currency earnings caused by poor trade performance this year. 25X1

Outlook

The borrowing trend is likely to continue, at least in the short run. 25X1 Loans either recently completed or under discussion demonstrate that the East Europeans are continuing to take advantage of Western bank enthusiasm to lend to the region. Even if borrowers have no immediate plans to draw down the funds, Eastern Europe will probably continue to exploit borrowing conditions that will remain favorable due to the shortage of lower risk borrowers. In addition, some East European countries may plan more borrowings to finance an increase in Western imports as they enter the new cycle of five-year plans. Some countries may see the need to import more capital goods to redress import cutbacks in the early 1980s and meet modernization requirements resulting from 25X1 Soviet pressure to improve the quality of exports to the USSR. 25X1

Still, an extended downturn in the region's economic health could reverse the trend. This year's slump apparently has not soured banks so far; however, lenders, and even borrowers, may become reluctant to expand Eastern Europe's debt further if trade performance continues to slide. The current enthusiasm among bankers for Eastern Europe may 25X1 cool when it becomes apparent that these countries have done little to produce the sustained growth in exports needed to pay for more imports. Failures by Poland, Romania, and Yugoslavia to meet obligations under rescheduling agreements might sour some bankers on the entire region, but such a spillover seems much less likely than in 1981. Turmoil in international financial markets caused by the reemergence of severe payments problems in the LDCs might pose a more serious threat to Eastern Europe's ability to obtain new loans. 25X1

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Bulgaria: Looking Toward Succession [redacted] 25X1

Bulgarian leader Todor Zhivkov, 74 years old and now in his fourth decade in power, is still in control, but his position may be eroding. His political and economic problems have multiplied in the last couple of years, and Moscow appears displeased with his performance. As preparations begin for an important Party Congress next February, rumors are growing that major leadership changes may be in the offing. [redacted]

Todor Zhivkov 74, General Secretary, Bulgarian Communist Party; Chairman, State Council. [redacted] 25X1

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Economic Problems

Zhivkov's problems at home—and with Moscow—appear to center on Bulgaria's economic slowdown over the past few years. Despite solid economic growth in the 1970s, the outlook has been dampened for most of this decade by the country's rigid bureaucracy, its outdated industrial base, and growing resource constraints. The past year has been particularly difficult because of an extremely cold winter and an extended drought. The Soviet Union, in the meantime, has been pressing Bulgaria as well as all other East European countries for better manufactured goods in exchange for Soviet raw materials. [redacted]

Zhivkov, in response to the slowdown, has introduced emergency controls—including an extended work-week—and has made at least token efforts to shake up the bureaucracy. Two recent articles in the Bulgarian party daily strongly criticized party leaders at all levels for corruption, cronyism, and inefficiency. The editorials, the strongest attacks on party shortcomings in recent memory, called for tighter party control and ideological purity. But so far there is no evidence that Zhivkov's "reforms" are going anywhere. There even seems to be some doubt that he still has the mental agility to engineer a workable recovery program. [redacted]

Problems With Moscow

The Soviet Ambassador to Sofia, Leonid Grekov, confirmed in several recent conversations with the US Ambassador that Moscow is displeased with Zhivkov's management of the Bulgarian economy. According to the US Embassy, Grekov said that his own published criticism of Sofia's inefficiency last July only repeated what he had been saying to the Bulgarians in private. Grekov, a Soviet Central Committee member who claims to know Gorbachev well, has faulted the Bulgarians for poor economic management, low productivity, and poor quality exports. US Embassy Sofia, concludes that Grekov's statements may indicate that the new, younger Soviet leadership may feel uncomfortable with Bulgaria's Old Guard. [redacted] 25X1

Moscow may be displeased for other reasons as well:

- [redacted] the Soviets long have had reservations about Zhivkov's emphasis on ethnically Bulgarian themes and symbols. 25X1
- The Soviets may be particularly disturbed by the unfavorable publicity generated by the regime's efforts to forcibly assimilate Bulgaria's Turkish minority.
- The Soviets probably resent Bulgaria's cautious pursuit of a more independent foreign policy.
- Zhivkov's close ties to Chernenko—rather than Gorbachev's mentor Andropov—may also cause some residual bad feelings among the new generation in power in Moscow. [redacted] 25X1

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Further Difficulties

Other problems at home and abroad also cloud Zhivkov's future:

- Diplomatic sources report that Zhivkov's mental acuity may be waning. Although he has seemed physically robust in recent public appearances, reports earlier this year indicated that he was becoming repetitious in conversation and that he was under doctor's orders to limit his activities.

- Several terrorist bombings since the summer of 1984—apparently the work of Bulgaria's ethnic Turkish minority protesting the government's assimilation campaign—are the first signs of serious dissent in the country in two decades.

- Finally, Bulgaria continues to be hurt by its reputation as a sponsor of international terrorism and as a smuggler of arms and drugs.

Possible Successors

In the last decade, Zhivkov has begun replacing the top leadership by bringing younger men into the Council of Ministers and Politburo. Turnover in the Central Committee has been high, and the change in regional party and state leaders has matched that at the national level. Yet Zhivkov has repeatedly purged the leadership of potential rivals, and he has no heir apparent.

A collective leadership probably would follow Zhivkov's departure as party leader. Such an arrangement could make good use of the complementary strengths of several contenders and might enable Zhivkov to retain, if health permitted, a largely ceremonial position such as Chairman of the State Council. A collective leadership might also avoid the renewed party factionalism that plagued Bulgaria before Zhivkov consolidated his rule in the late 1950s. It also would parallel the current Soviet practice of dividing state and party posts.

A collective leadership would likely include Prime Minister Grisha Filipov, Politburo member and Party Secretary, Milko Balev, Minister of Machine Building Ognyan Doynov, and First Deputy Premier Chudomir Aleksandrov. These four leaders also would likely be the front-runners in any competition for the top spot.

Filipov is in a good but probably not solid position. He combines experience in the government and party bureaucracy with support from Moscow. He appeared to enjoy a warm relationship with Gorbachev when the latter visited Sofia last September and has traveled to Moscow at least three times this year to confer with Soviet leaders. But Filipov's age may prove a disadvantage in competing with several younger rivals, and he is closely identified with current economic policies that are increasingly controversial. Moreover, he lacks experience outside the economic sphere. He also is disliked by many Bulgarians because of his Russian origins and accent and his personal style. 25X1

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Politburo member and Party Secretary Milko Balev, Zhivkov's chief aide, has wide experience in party affairs and is increasingly visible as a spokesman on ideological matters and relations with other parties. Yet Balev lacks any significant following, especially in the government apparatus, and his close relationship with Zhivkov links him with the current Bulgarian management the Soviets dislike. He also is said to have engineered the dismissal in 1983 of Aleksandur Lilov, formerly the Politburo's leading ideologue, possibly costing him some Soviet support. Balev's influence could decline after Zhivkov left the scene. 25X1

Ognyan Doynov's posts as Politburo member and Minister of Machine Building give him high standing in both the party and government bureaucracy. In 1980 he became the first head of the Bulgarian Industrial Economic Association, an agency that serves as "middleman" for some Bulgarian enterprises in their dealings with Western business firms. He is rumored to be related to Zhivkov, which—if true—could partially explain his rapid rise. However, his power base appears concentrated in the economic sector, and his influence in the party appears weak. 25X1

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Chudomir Aleksandrov, the First Deputy Prime Minister, is a fast-rising Zhivkov favorite. He is building a power base as Bulgaria's economic coordinator, and his experience as a former First Secretary of the Sofia Party Committee gives him 25X1

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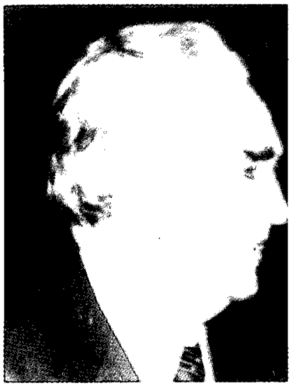
Leading Succession Candidates



Grisha Filipov, 66, Politburo member and Chairman of the Council of Ministers . . . holds doctorate in economics from Sofia University . . . specializes in planning and financial matters . . . follows Soviet line with enthusiasm. [redacted]

Ognyan Doynov, 50, Politburo member and party Secretary, Minister of Machine Building . . . believed to be active in technology transfer . . . US Embassy Sofia officials say he has good Soviet contacts. [redacted]

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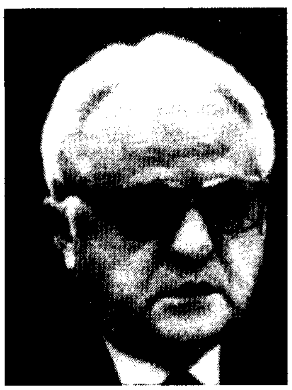
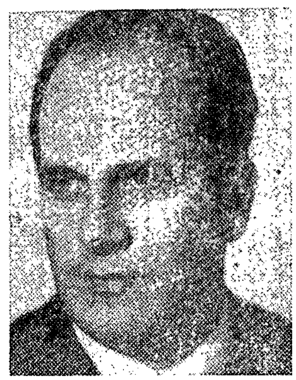


Milko Balev, 65, party Secretary and Politburo member . . . articulate and intelligent . . . Zhivkov values his loyalty and skills as ghostwriter . . . may have some authority over military, security, and personnel issues . . . is trying to build broader power base. [redacted]



Chudomir Aleksandrov, 49, Politburo member and First Deputy Premier . . . graduate of the G. V. Plekhanov Mining Institute in Leningrad . . . has impressed Bulgarian officials with his skills as problem solver . . . seems more likely candidate for government than party leadership. [redacted]

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strong political credentials. Aleksandrov's standing in Soviet eyes also may be high: his rise to power coincides with the tenure of Grekov, the current Soviet Ambassador to Bulgaria. They worked together closely while serving on the party committees of their respective capital cities. Aleksandrov's long-term success, however, may depend on whether he can translate his favor with Zhivkov into permanent and decisive political influence. [redacted]

Darkhorses

[redacted] the latest rumor in Sofia is that National Assembly President Stanko Todorov will replace Zhivkov sometime soon. Todorov is an experienced politician who may be acceptable both in Sofia and Moscow, but he has been in eclipse since he was ousted as Prime Minister and probably would emerge as a compromise candidate. [redacted]

Another darkhorse, Deputy Prime Minister Andrey Lukanov, has impressed many Westerners and has good Soviet contacts. But he is not especially popular with his colleagues, who may hold his popularity with Western diplomats against him, and he is not yet a full member of the Politburo. Lukanov is more likely a future candidate for foreign minister. [redacted] 25X1

Prospects 25X1

While there is no strong evidence that Moscow plans to dump Zhivkov any time soon, we would not dismiss such a possibility. Zhivkov's hoped-for legacy of domestic order and relative economic prosperity appear less secure today than at any time in recent memory. Bulgarian loyalty to Moscow remains strong, but the Soviets may be less willing than

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previously to provide economic support in exchange, as is the case with its other East European allies.

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Zhivkov apparently attempted to reassert himself by making four ministerial changes on 18 October. The moves—which included the formation of a party-state Committee on Energy Problems under Chudomir Aleksandrov—were probably cited by Zhivkov's discussions with Gorbachev during the Soviet leader's trip to Sofia for a Warsaw Pact summit and a working visit on 21-25 October. Bulgaria's Deputy Foreign Minister told the US Ambassador on 18 October that more changes may be in the works. 25X1

The Bulgarian Party Congress next February will provide a more pivotal opportunity for Zhivkov to reassert himself. At that meeting, any major leadership changes will be approved and announced.

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Economic News in Brief

Western Europe

West German unemployment held steady at 9.4 percent in September . . . increase in joblessness has leveled off . . . but still at record levels . . . new labor force entrants offsetting growth of new jobs. [redacted]

British retail price index dropped in September to annual rate of 5.9 percent . . . decline led by falling mortgage interest rates . . . higher value of pound has eased inflationary pressures by reducing cost of imported raw materials . . . inflation expected to moderate through middle of next year. [redacted]

French press reports opening in Rennes of first totally digital TV studio . . . joint venture between French Television and Thompson Video Equipment (TVE) . . . TVE hopes studio will give it lead in competition to develop TV of future . . . expects economic, transmission, and artistic advantages. [redacted]

Spanish Ministry of Industry proposed five-year plan to develop pharmaceutical industry . . . includes $82.5 million in subsidies and credits to stimulate private-sector investment and $4 million for research and development . . . part of overall plan to develop Spain's technological infrastructure. [redacted]

Portuguese frigate program may be further delayed . . . Netherlands haggling over extent of involvement by its industry . . . Lisbon and West German firm, the prime contractor, will try to proceed regardless of Dutch financing. [redacted]

Turkey has agreed to pay USSR in hard currency for natural gas, according to Turkish official . . . Ankara previously insisted on barter deal . . . still negotiating price. [redacted]

Ottawa announced merger last week of the Mercantile Bank with a larger Canadian bank . . . Mercantile had liquidity problems after two other banks collapsed last month . . . merger may not restore confidence in banking sector or Ottawa's financial competence. [redacted]

25X1

Eastern Europe

Eastern Europe's hard currency trade surplus fell in first half of year . . . exports down 4 percent because of harsh winter, falling prices, possible diversion of goods to USSR . . . imports up 6 percent to meet needs for energy, raw materials . . . might force some countries to cut back imports, seek new credits. [redacted]

25X1

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Recently released figures from the National Bank of Yugoslavia shows a hard currency current account deficit of $77 million for January to July . . . Belgrade not likely to meet its target of $880 million for 1985 . . . Yugoslavia probably will fall short of the IMF's yearend target for hard currency reserves. [redacted]

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Looking Ahead

October ***Yugoslavia***	*Party Central Committee meets 30-31 October* . . . Presidium recently lengthened session from one day to accommodate discussion of constitutional system . . . session also will debate employment and social policies . . . bitter exchange over wage system may resurface. 25X1
November ***Spain***	*Communist-influenced peace groups plan large demonstration in Madrid on 10 November against NATO membership and US military presence* . . . turnout could range between 500,000 and 1 million. 25X1

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